

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The Letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name	License Number		

# **City of Northville, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2007**

# City of Northville, Michigan

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## Independent Auditor's Report

To the City Council  
City of Northville, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Northville as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Northville's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Northville as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council  
City of Northville, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Northville's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is not a required part of the basic financial statements and is presented for the purpose of additional analysis. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moreau, PLLC*

September 6, 2007

# City of Northville, Michigan

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## Management's Discussion and Analysis

The following discussion and analysis of the financial performance for the City of Northville (the "City") provides an overview of the City's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the City's financial statements.

### Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2007:

- Property taxes continue to be the City's single largest source of revenue at 55 percent of governmental revenue. That source of revenue increased 1 percent from the prior year.
- Statewide, municipalities are concerned about the stability of state-shared revenue from sales tax. For the City of Northville, it is the second largest revenue source. This year, state-shared revenue decreased by approximately \$17,000, which is less than 3 percent. Although this is a relatively minor decrease, the appropriation received from the State is far less than the amounts available based on state law.
- The City closely monitors revenue fluctuations and expenditure requirements which are reflected in quarterly budget amendments. As a result of close monitoring, for example, the City's largest fund, the General Fund, was under budget by 3.8 percent.
- The City Council's stated goal of maintaining financial stability is evidenced by an increase of the fund balance in the General Fund by approximately \$267,000, which equates to 5 percent of actual expenditures for the year ended June 30, 2007.
- Long-term debt for the primary government decreased by \$721,000 or 23 percent, which also improved the City's financial stability. This is consistent with the City's long-term goal to reduce debt. Instead, where appropriate, a well-planned "pay-as-you-go" system has been established.

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

# City of Northville, Michigan

## Management's Discussion and Analysis (Continued)

### The City as a Whole

The City's net assets of the governmental activities increased approximately \$921,000, or 3 percent, from a year ago as shown in the table below. Despite the slowed general economy, the City is able to continue to initiate and complete infrastructure projects due to a dedicated millage for street, drainage, and sidewalk improvements and careful long-term planning. The following table shows, in a condensed format, the current year's net assets compared to the two prior years:

TABLE I

	Governmental Activities			Changes from Prior Year	
	2005	2006	2007	in Dollars	Percent
<b>Assets</b>					
Current assets	\$ 8,035,191	\$ 9,466,278	\$ 10,198,656	\$ 732,378	8
Noncurrent assets	25,123,638	25,078,011	24,781,050	(296,961)	-
Total assets	33,158,829	34,544,289	34,979,706	435,417	1
<b>Liabilities</b>					
Current liabilities	1,729,541	1,249,378	1,318,441	69,063	6
Long-term liabilities	3,310,716	2,654,575	2,099,682	(554,893)	(21)
Total liabilities	5,040,257	3,903,953	3,418,123	(485,830)	(12)
<b>Net Assets</b>					
Invested in capital assets -					
Net of related debt	20,775,268	21,274,871	21,554,603	279,732	1
Restricted	2,034,282	3,428,965	3,896,693	467,728	14
Unrestricted	5,309,022	5,936,500	6,110,287	173,787	3
Total net assets	<u>\$ 28,118,572</u>	<u>\$ 30,640,336</u>	<u>\$ 31,561,583</u>	<u>\$ 921,247</u>	3

Restricted net assets increased primarily due to the timing of capital improvement projects that will occur next year. Those projects, primarily paid out of Special Revenue Funds, include the Taft Road reconstruction and the Beal Street Bridge reconstruction.

# City of Northville, Michigan

## Management's Discussion and Analysis (Continued)

### Governmental Activities

The City of Northville appears to have had an unusual year since total revenue decreased by 13 percent while program expenses increased by 3 percent. The following table shows the changes in net assets during the current year as compared to the two prior years:

TABLE 2

	Governmental Activities			Changes from	
	2005	2006	2007	Prior Year	
				in Dollars	Percent
<b>Revenue</b>					
Program revenue:					
Charges for services	\$ 1,659,579	\$ 2,335,021	\$ 1,433,018	\$ (902,003)	(39)
Operating grants and contributions	889,468	917,600	703,559	(214,041)	(23)
Capital grants and contributions	591,723	589,231	206,124	(383,107)	(65)
General revenue:					
Property taxes	4,925,642	5,113,823	5,184,152	70,329	1
State-shared revenue	608,023	603,834	587,043	(16,791)	(3)
Unrestricted investment earnings	156,621	368,647	481,862	113,215	31
Franchise fees	76,559	81,024	86,096	5,072	6
Racetrack breakage	463,876	422,381	385,879	(36,502)	(9)
Gain (loss) on disposal of assets	14,593	(938)	(9,257)	(8,319)	887
Total revenue	9,386,084	10,430,623	9,058,476	(1,372,147)	(13)
<b>Program Expenses</b>					
General government	3,205,077	2,167,794	2,699,926	532,132	25
Public safety	2,586,762	2,567,022	2,761,197	194,175	8
Public works	1,622,449	1,931,152	1,486,218	(444,934)	(23)
Recreation and culture	466,038	363,380	325,710	(37,670)	(10)
Senior housing	728,698	730,137	748,962	18,825	3
Interest on long-term debt	191,377	149,374	115,216	(34,158)	(23)
Total program expenses	8,800,401	7,908,859	8,137,229	228,370	3
<b>Change in Net Assets</b>	<b>\$ 585,683</b>	<b>\$ 2,521,764</b>	<b>\$ 921,247</b>	<b>\$ (1,600,517)</b>	<b>(63)</b>



# City of Northville, Michigan

## Management's Discussion and Analysis (Continued)

Below is an analysis of the fluctuations from the prior year:

**Program Revenue - Charges for Services** - Although the nature of the revenues is consistent with the prior years, most of the fluctuation is due to three items, two of which are unique to the prior year.

- Last year, general government revenues included a transfer in from the City's Agency Fund to establish a MERS Premier Health Savings Program. This transfer in of cash was for advance funding of the postretirement healthcare liability plan. The amount of the transfer to establish this third-party trust fund was approximately \$384,000. Beginning this year, the contributions are made payable directly to the plan.
- Also last year, public works revenue included new special assessment agreements entered into which provided \$490,500 of revenue. These agreements were related to parking credits required for newly constructed commercial buildings. There were no new special assessment agreements entered into during the year ended June 30, 2007.
- This year, revenue distributions from the 35<sup>th</sup> District Court (the "Court") decreased by approximately \$18,000. The 35<sup>th</sup> District Court includes the Cities of Northville and Plymouth in addition to the Charter Townships of Northville, Canton, and Plymouth. The Court is currently reviewing its long-term budget, but has notified the five communities that the level of revenue returned to the local units of government is likely to continue to decrease in the future.

**Program Revenue - Operating Grants and Contributions** - Although the nature of the revenues is consistent with the prior years, most of the fluctuation is due to the following two categories.

- Grant activities - The level of grant activities varies from year to year and is based upon grant opportunities and funding available. In the prior year, the City was able to obtain over \$100,000 in grants that provided operating equipment for both the police and fire departments.
- Downtown Development Authority (the "DDA") funding - The DDA is considered a component unit because it is a related entity to the City; however, it meets the criteria to be presented separately in the City's financial statements. Since it is a component unit, transactions with the DDA are treated as external, not internal, activities. Transactions with the DDA may vary significantly from year to year based upon projects in process at the time. The DDA has pledged its captured tax revenue for the repayment of bonds issued by the City in 1993. Since the date of final payoff for the bonds is approaching, the level of funding required from the DDA for those bonds decreased by \$110,000 from the prior year.

**Program Revenue - Capital Grants and Contributions** - In the prior year, the DDA acquired land in the amount of \$400,000 for public parking. Since the City ultimately holds the title to land held for public use, the value of the land acquired was transferred to the City, resulting in capital contribution revenue.

# City of Northville, Michigan

## Management's Discussion and Analysis (Continued)

**Program Expenses - General Government Expenses** - The increase in this category of expenses is due to two items. First was the transfer of \$427,000 for the FY 2007 contribution for the Postretirement Healthcare Trust Fund. Secondly, a reserve for claims incurred but not reported was established in the Insurance Retention Fund. This reserve was established not for any known claims, but to allow for budget stability in the event that there is a significant time lag between when a claim may have occurred and when it was actually reported. This practice is in compliance with generally accepted accounting principles.

**Program Expenses - Public Works Program Expenses** - The prior year included expenses for special projects that were completed that did not meet the criteria for being capitalized. Examples include approximately \$80,000 for the long-term planning services, \$10,000 for street lights, \$10,000 for municipal building maintenance projects, and \$10,000 for a tree removal and replacement program.

### Business-type Activities

The City's business-type activities consist of the Water and Sewer and Refuse and Recycling Funds. The City maintains transmission lines that allow customers to receive water from the Detroit water system and deliver it to its residents. In addition, a water tower is operated and maintained to supplement water pressure during periods of peak water demand. Sewage treatment is provided through Wayne County's Rouge Valley Sewage Disposal System. Refuse collection and recycling services are provided by an outside commercial entity.

The following tables show, in a condensed format, the current year net assets and changes in net assets, compared to the prior year:

TABLE 3

	Business-type Activities			Changes from Prior Year	
	2005	2006	2007	in Dollars	Percent
<b>Assets</b>					
Current assets	\$ 2,244,693	\$ 2,302,255	\$ 2,677,900	\$ 375,645	16
Noncurrent assets	<u>6,504,737</u>	<u>6,417,464</u>	<u>6,226,343</u>	<u>(191,121)</u>	(3)
Total assets	8,749,430	8,719,719	8,904,243	184,524	2
<b>Liabilities</b>					
Current liabilities	297,727	394,775	402,619	7,844	2
Long-term liabilities	<u>297,737</u>	<u>211,217</u>	<u>122,348</u>	<u>(88,869)</u>	(42)
Total liabilities	<u>595,464</u>	<u>605,992</u>	<u>524,967</u>	<u>(81,025)</u>	(13)
<b>Net Assets</b>					
Invested in capital assets -					
Net of related debt	6,134,895	6,132,190	6,030,993	(101,197)	(2)
Restricted	5,078	5,260	5,510	250	5
Unrestricted	<u>2,013,993</u>	<u>1,976,277</u>	<u>2,342,773</u>	<u>366,496</u>	19
Total net assets	<u>\$ 8,153,966</u>	<u>\$ 8,113,727</u>	<u>\$ 8,379,276</u>	<u>\$ 265,549</u>	3

# City of Northville, Michigan

## Management's Discussion and Analysis (Continued)

- The increase in current assets represents an increase in cash and investments due primarily to the results of operations.
- The decrease in long-term liabilities of \$88,869, or 42 percent, is due to a reduction of bonded indebtedness. The final bond payment for business activities will be in 2009. Accordingly, interest expense will continue to decrease as it did this year by almost \$5,000 or 24 percent as shown in the table below.

TABLE 4

	Business-type Activities			Changes from Prior Year	
	2005	2006	2007	in Dollars	Percent
Operating revenues:					
Water and sewer	\$ 2,205,236	\$ 2,207,352	\$ 2,260,224	\$ 52,872	2
Refuse and recycling	429,641	459,190	461,425	2,235	-
Operating expenses:					
Water and sewer	2,107,081	2,328,556	2,086,803	(241,753)	(10)
Refuse and recycling	379,656	424,348	440,486	16,138	4
Operating income (loss)	148,140	(86,362)	194,360	280,722	(325)
Investment income	28,317	66,619	86,672	20,053	30
Interest expense	(61,393)	(20,496)	(15,482)	5,014	(24)
<b>Change in Net Assets</b>	<b>\$ 115,064</b>	<b>\$ (40,239)</b>	<b>\$ 265,550</b>	<b>\$ 305,789</b>	(760)

The rate structure of the business activities is set based upon a multi-year budgeting approach to smooth out any significant fluctuations in user fees. Based upon the long-term approach to budgeting, no customer rate adjustments were required during the past year for the base water, sewer, and refuse collection.

Water and sewer operating expenses decreased this year as the prior year included a major maintenance project for the City's water tower. The tower was painted, inside and out, and minor repairs were completed. The cost for that project was \$197,000.

Investment income increased this year based on improved interest rates on investments and maintaining an actively managed portfolio for greater yield.

# **City of Northville, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **The City's Funds**

The presentation of the City's major funds follows the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2007, as defined by Governmental Accounting Standards Board Statement No. 34, are the following.

- General Fund
- Street, Drainage, and Sidewalk Improvement Fund
- Parking Fund
- Public Improvement Fund

### **General Fund Budgetary Highlights**

The General Fund accounts for all police, fire, public works, planning and zoning, and administrative functions of the City government. The budget is essentially a "maintenance" budget, which means it increases modestly from year to year. The budget is monitored closely and amended quarterly.

The General Fund pays for most of the City's governmental services. The most significant category is the police department which represents 40 percent of total expenditures in 2007. Expenses for police service, dispatch services, racetrack services, and capital expenditures are recorded in various departments within the General Fund.

### **Other Major Funds Highlights**

The Street, Drainage, and Sidewalk Improvement Fund accounts for proceeds from a dedicated millage for improvements throughout the City. The funds received from the millage for the year ended June 30, 2007 will be used to fund the Taft Road reconstruction project in the subsequent fiscal year.

The Parking Fund records special assessment revenue related to parking credits when new or expanded development occurs in the central business district. The current fund balance will be utilized to fund future parking expansion projects.

The Public Improvement Fund accounts for racetrack breakage revenue, special public improvement projects, and many grant activities. Annually, the Northville City Council designates use of breakage funds received in excess of police and fire service costs at Northville Downs racetrack. The allocation of those funds is generally for physical improvements or programs that are of a general public use.

# **City of Northville, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Capital Asset and Debt Administration**

At the end of fiscal year 2007, the City had approximately \$29,983,600 (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, infrastructure, and water and sewer lines.

The City continues to collect a dedicated millage approved by the voters in March 1997 for comprehensive improvements to streets, drains, and sidewalks. The focus of the related capital project spending continues to be in conjunction with a 20-year improvement plan, which is reviewed on an ongoing basis.

The City also funds a Fire Equipment and Replacement Fund. This fund allows for the purchase of equipment following a 20-year replacement program to keep equipment up to date and meet current standards. With careful planning and proper maintenance of existing equipment, it is anticipated that taxpayers will not be burdened with additional debt millages to replace existing equipment.

Total debt outstanding at the end of the year related to governmental activities is \$2,208,188. This represents less than 1 percent of the City's State Equalized Value (SEV). The City is well under the legal debt margin, as defined by state statute, of 10 percent of SEV.

### **Economic Factors and Next Year's Budgets and Rates**

The general operating millage will not increase for the next fiscal year. The total millage rate is one of the two lowest total millage rates in over 10 years. The City of Northville's fiscal year 2008 budget is essentially a "maintenance" budget with programmed capital improvements.

Due to the City of Northville's decreasing the debt load, programmed system improvements, controlled water loss, and long-term approach to determining the user fee structure, there are no increases to business activities user fees as of July 1, 2007.

### **Contacting the City's Management**

This financial report is intended to provide the citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the City's finance office at 215 West Main Street, Northville, Michigan 48167, or via the City's website at [www.ci.northville.mi.us](http://www.ci.northville.mi.us).

# City of Northville, Michigan

## Statement of Net Assets June 30, 2007

	Primary Government			Component Unit - Downtown Development Authority
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments (Note 3)	\$ 8,558,645	\$ 2,044,530	\$ 10,603,175	\$ 1,205,418
Receivables - Net:				
Tax receivables	24,315	-	24,315	-
Customer receivables	-	583,043	583,043	-
Special assessments	830,639	-	830,639	-
Other governmental units	475,691	2,126	477,817	6,036
Other	226,164	-	226,164	-
Internal balances	(17,663)	17,663	-	-
Inventories	26,124	30,538	56,662	-
Other assets	74,741	-	74,741	-
Investments in land	225,000	-	225,000	-
Restricted cash (Note 8)	124,191	5,510	129,701	-
Investment in joint ventures (Note 11)	669,068	-	669,068	-
Capital assets not being depreciated (Note 5)	3,596,592	11,231	3,607,823	-
Capital assets being depreciated - Net (Note 5)	20,166,199	6,209,602	26,375,801	-
Total assets	34,979,706	8,904,243	43,883,949	1,211,454
<b>Liabilities</b>				
Accounts payable	190,336	279,142	469,478	29,181
Accrued and other liabilities	373,926	22,780	396,706	44,857
Due to other governmental units	108,210	-	108,210	-
Deferred revenue (Note 4)	17,263	-	17,263	-
Compensated absences:				
Due within one year	105,286	8,489	113,775	-
Due in more than one year	414,914	24,716	439,630	7,781
Long-term debt (Note 7):				
Due within one year	523,420	92,208	615,628	-
Due in more than one year	1,684,768	97,632	1,782,400	-
Total liabilities	3,418,123	524,967	3,943,090	81,819
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	21,554,603	6,030,993	27,585,596	-
Restricted:				
Streets, drainage, and sidewalk improvements	1,460,613	-	1,460,613	-
Cemetery	661,060	-	661,060	-
Insurance retention	69,183	-	69,183	-
Parking	1,359,204	-	1,359,204	-
Parking debt	346,633	-	346,633	-
Other purposes	-	5,510	5,510	-
Unrestricted	6,110,287	2,342,773	8,453,060	1,129,635
Total net assets	\$ 31,561,583	\$ 8,379,276	\$ 39,940,859	\$ 1,129,635

# City of Northville, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 2,699,926	\$ 589,763	\$ -	\$ 3,695
Public safety	2,761,197	103,050	39,248	436
Public works	1,486,218	38,428	578,180	50,192
Recreation and culture	325,710	46,807	-	62,193
Senior housing	748,962	654,970	86,131	89,608
Interest on long-term debt	115,216	-	-	-
Total governmental activities	8,137,229	1,433,018	703,559	206,124
Business-type activities:				
Water and sewer	2,102,285	2,260,224	-	-
Refuse and recycling	440,486	461,425	-	-
Total business-type activities	2,542,771	2,721,649	-	-
Total primary government	<u>\$ 10,680,000</u>	<u>\$ 4,154,667</u>	<u>\$ 703,559</u>	<u>\$ 206,124</u>
Component unit - Downtown Development Authority				
	<u>\$ 963,216</u>	<u>\$ -</u>	<u>\$ 16,349</u>	
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Racetrack breakage revenue				
Franchise fee revenue				
Loss on sale of capital asset				
Total general revenues and loss on sale of capital asset				
<b>Change in Net Assets</b>				
<b>Net Assets - Beginning of year</b>				
<b>Net Assets - End of year</b>				

**Statement of Activities**  
**Year Ended June 30, 2007**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (2,106,468)	\$ -	\$ (2,106,468)	\$ -
(2,618,463)	-	(2,618,463)	-
(819,418)	-	(819,418)	-
(216,710)	-	(216,710)	-
81,747	-	81,747	-
(115,216)	-	(115,216)	-
(5,794,528)	-	(5,794,528)	-
-	157,939	157,939	-
-	20,939	20,939	-
-	178,878	178,878	-
(5,794,528)	178,878	(5,615,650)	-
-	-	-	(946,867)
5,184,152	-	5,184,152	1,050,741
587,043	-	587,043	-
481,862	86,672	568,534	61,008
385,879	-	385,879	-
86,096	-	86,096	-
(9,257)	-	(9,257)	-
6,715,775	86,672	6,802,447	1,111,749
921,247	265,550	1,186,797	164,882
30,640,336	8,113,726	38,754,062	964,753
<b>\$ 31,561,583</b>	<b>\$ 8,379,276</b>	<b>\$ 39,940,859</b>	<b>\$ 1,129,635</b>



# City of Northville, Michigan

## Governmental Funds Balance Sheet June 30, 2007

	Major Special Revenue Funds					
	General Fund	Parking	Public Improvement	Street, Drainage, and Sidewalk Improvement	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and investments (Note 3)	\$ 2,273,551	\$ 554,256	\$ 1,552,698	\$ 1,010,978	\$ 2,458,385	\$ 7,849,868
Restricted cash	1,171	-	-	-	123,020	124,191
Receivables - Net:						
Delinquent taxes	24,315	-	-	-	-	24,315
Other governmental units	229,536	57,315	-	13,550	175,290	475,691
Assessments	-	742,735	32,139	-	55,765	830,639
Other	187,831	5,114	32,453	-	766	226,164
Other assets	34,079	-	761	-	48,669	83,509
Investment in land	-	-	225,000	-	-	225,000
Total assets	<u>\$ 2,750,483</u>	<u>\$ 1,359,420</u>	<u>\$ 1,843,051</u>	<u>\$ 1,024,528</u>	<u>\$ 2,861,895</u>	<u>\$ 9,839,377</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 127,403	\$ 216	\$ 25,216	\$ 208	\$ 19,503	\$ 172,546
Accrued and other liabilities	286,392	-	253	-	59,710	346,355
Due to other governmental units	-	-	-	-	108,210	108,210
Deferred revenue	-	636,880	35,746	-	35,085	707,711
Total liabilities	413,795	637,096	61,215	208	222,508	1,334,822
<b>Fund Balances</b>						
Reserved:						
Investment in land	-	-	225,000	-	-	225,000
Capital projects	-	-	-	-	54,000	54,000
Parking	-	722,324	-	-	-	722,324
Cemetery	-	-	53,262	-	661,060	714,322
Other	4,575	-	6,810	-	-	11,385
Unreserved:						
Designated, reported in:						
General Fund (Note 12)	8,293	-	-	-	-	8,293
Special Revenue Funds (Note 12)	-	-	1,307,232	400,000	-	1,707,232
Undesignated, reported in:						
General Fund	2,323,820	-	-	-	-	2,323,820
Special Revenue Funds	-	-	189,532	624,320	1,163,029	1,976,881
Debt Service Funds	-	-	-	-	395,393	395,393
Capital Projects Funds	-	-	-	-	365,905	365,905
Total fund balances	<u>2,336,688</u>	<u>722,324</u>	<u>1,781,836</u>	<u>1,024,320</u>	<u>2,639,387</u>	<u>8,504,555</u>
Total liabilities and fund balances	<u>\$ 2,750,483</u>	<u>\$ 1,359,420</u>	<u>\$ 1,843,051</u>	<u>\$ 1,024,528</u>	<u>\$ 2,861,895</u>	<u>\$ 9,839,377</u>

# City of Northville, Michigan

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## Governmental Funds Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Assets Year Ended June 30, 2007

**Fund Balances - Total Governmental Funds** \$ 8,504,555

Amounts reported for governmental activities in the statement of activities are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	14,297,147
Infrastructure assets used in government activities are not financial resources and are not reported in the funds	9,013,548
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	690,448
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(2,208,188)
Interest payable is not accrued in the funds	(25,964)
Compensated absences are not included as a liability of the funds	(520,200)
Investments in joint ventures are included as part of governmental activities	669,068
Internal Service Funds are also included as governmental activities	<u>1,141,169</u>

**Net Assets of Governmental Activities** \$ 31,561,583

# City of Northville, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2007

	Major Special Revenue Funds					
	General		Public	Street, Drainage, Other Nonmajor		Total
	Fund	Parking	Improvement	and Sidewalk Improvement	Governmental Funds	Governmental Funds
<b>Revenue</b>						
Property taxes	\$ 4,590,908	\$ -	\$ -	\$ 593,244	\$ -	\$ 5,184,152
Licenses and permits	322,969	-	-	-	-	322,969
Special assessments	-	157,954	9,726	-	32,566	200,246
Federal sources	994	-	9,441	-	89,220	99,655
State-shared and grant revenue	595,230	-	-	-	375,127	970,357
Local contributions	81,611	-	4,120	-	261,400	347,131
Sales and services	118,706	-	-	-	44,889	163,595
Charges for overhead services	187,846	-	-	-	-	187,846
Fines and forfeitures	84,867	-	-	-	-	84,867
Michigan Housing Authority subsidies	-	-	-	-	79,931	79,931
Rental income	-	-	-	-	642,644	642,644
Racetrack revenue	152,451	-	233,428	-	-	385,879
Other	269,857	25,920	206,336	45,211	134,347	681,671
<b>Total revenue</b>	<b>6,405,439</b>	<b>183,874</b>	<b>463,051</b>	<b>638,455</b>	<b>1,660,124</b>	<b>9,350,943</b>
<b>Expenditures - Current</b>						
Administration	1,115,621	-	-	-	254,300	1,369,921
Police department	2,359,270	-	-	-	-	2,359,270
Fire and inspection	393,105	-	-	-	54,006	447,111
Housing operations	-	-	-	-	339,499	339,499
Public works	601,661	-	-	-	-	601,661
Planning, zoning, and inspection	262,748	-	-	-	-	262,748
Building and grounds	449,319	-	-	-	-	449,319
Legislative	15,591	-	-	-	-	15,591
Debt retirement	65,913	-	170,717	-	519,270	755,900
Shared services	238,803	-	-	-	-	238,803
Other expenditures	377,798	4,689	299,835	-	669,629	1,351,951
Street maintenance and repairs	-	-	-	-	495,889	495,889
<b>Total expenditures</b>	<b>5,879,829</b>	<b>4,689</b>	<b>470,552</b>	<b>-</b>	<b>2,332,593</b>	<b>8,687,663</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>525,610</b>	<b>179,185</b>	<b>(7,501)</b>	<b>638,455</b>	<b>(672,469)</b>	<b>663,280</b>
<b>Other Financing Sources (Uses)</b>						
Transfers in (Note 6)	150,826	-	239,017	-	495,693	885,536
Transfers out (Note 6)	(408,828)	-	(157,214)	(164,909)	(154,585)	(885,536)
<b>Total other financing sources (uses)</b>	<b>(258,002)</b>	<b>-</b>	<b>81,803</b>	<b>(164,909)</b>	<b>341,108</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>267,608</b>	<b>179,185</b>	<b>74,302</b>	<b>473,546</b>	<b>(331,361)</b>	<b>663,280</b>
<b>Fund Balances - Beginning of year</b>	<b>2,069,080</b>	<b>543,139</b>	<b>1,707,534</b>	<b>550,774</b>	<b>2,970,748</b>	<b>7,841,275</b>
<b>Fund Balances - End of year</b>	<b>\$ 2,336,688</b>	<b>\$ 722,324</b>	<b>\$ 1,781,836</b>	<b>\$ 1,024,320</b>	<b>\$ 2,639,387</b>	<b>\$ 8,504,555</b>

# City of Northville, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2007**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 663,280</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	(287,316)
Net income from joint ventures is not recorded in the governmental funds, but is recorded in the statement of activities	27,958
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(141,055)
Interest expense reported in the statement of activities that does not use current financial resources and is not reported as expense in the governmental funds	8,928
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	630,831
Increase in accumulated employee sick and vacation pay, as well as estimated general liability claims, is recorded when earned in the statement of activities	7,854
Internal Service Funds are also included as governmental activities	10,767
<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ 921,247</u></b>

# City of Northville, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2007

	Enterprise Funds			Internal Service Fund
	Major Fund - Water and Sewer	Nonmajor Fund - Refuse and Recycling	Total	Municipal Equipment
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 1,762,832	\$ 281,698	\$ 2,044,530	\$ 708,777
Receivables - Net:				
Customers	507,077	75,966	583,043	-
Other governmental units	1,815	311	2,126	-
Other assets	30,538	-	30,538	17,361
Total current assets	2,302,262	357,975	2,660,237	726,138
Noncurrent assets:				
Restricted cash	5,510	-	5,510	-
Capital assets not being depreciated	11,231	-	11,231	-
Capital assets - Net	6,209,602	-	6,209,602	452,096
Total noncurrent assets	6,226,343	-	6,226,343	452,096
Total assets	8,528,605	357,975	8,886,580	1,178,234
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	249,906	29,236	279,142	17,789
Accrued and other liabilities	22,379	401	22,780	1,607
Current portion of compensated absences	7,931	558	8,489	-
Current portion of long-term debt	92,208	-	92,208	-
Total current liabilities	372,424	30,195	402,619	19,396
Noncurrent liabilities:				
Compensated absences - Net of current portion	23,092	1,624	24,716	11,459
Long-term debt - Net of current portion	97,632	-	97,632	-
Total noncurrent liabilities	120,724	1,624	122,348	11,459
Total liabilities	493,148	31,819	524,967	30,855
<b>Net Assets</b>				
Investment in capital assets - Net of related debt	6,030,993	-	6,030,993	452,096
Restricted	5,510	-	5,510	-
Unrestricted	1,998,954	326,156	2,325,110	695,283
Total net assets	\$ 8,035,457	\$ 326,156	8,361,613	\$ 1,147,379

Amounts reported for business-type activities in the statement of net assets are different because a portion of the Internal Service Fund is allocated to business-type activities (amount reported as internal balance)

	17,663
Net assets of business-type activities	<u>\$ 8,379,276</u>

# City of Northville, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2007

	Enterprise Funds			Internal Service Fund
	Major Fund - Water and Sewer	Nonmajor Fund - Refuse and Recycling	Total	Municipal Equipment
<b>Operating Revenue</b>				
Customer charges	\$ 2,123,514	\$ 423,010	\$ 2,546,524	\$ -
Rental income	135,739	-	135,739	349,640
Other revenue	971	560	1,531	13,037
Total operating revenue	2,260,224	423,570	2,683,794	362,677
<b>Operating Expenses</b>				
General operations and maintenance	1,626,418	375,903	2,002,321	260,686
Depreciation	227,102	-	227,102	135,311
Other expenses	219,571	26,728	246,299	-
Total operating expenses	2,073,091	402,631	2,475,722	395,997
<b>Operating Income (Loss)</b>	187,133	20,939	208,072	(33,320)
<b>Nonoperating Revenue (Expense)</b>				
Investment income	75,562	11,110	86,672	30,376
Interest expense	(15,482)	-	(15,482)	-
Total nonoperating revenue	60,080	11,110	71,190	30,376
<b>Net Income (Loss)</b>	247,213	32,049	279,262	(2,944)
<b>Net Assets - Beginning of year</b>	7,788,244	294,107		1,150,323
<b>Net Assets - End of year</b>	<u><u>\$ 8,035,457</u></u>	<u><u>\$ 326,156</u></u>		<u><u>\$ 1,147,379</u></u>
Amounts reported for business-type activities in the statement of activities are different because a portion of the Internal Service Fund net income is allocable to the Enterprise Funds				(13,712)
Change in net assets of business-type activities			<u><u>\$ 265,550</u></u>	

# City of Northville, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2007

	Enterprise Funds			Internal Service Fund
	Major Fund - Water and Sewer	Nonmajor Fund - Refuse and Recycling	Total	Municipal Equipment
<b>Cash Flows from Operating Activities</b>				
Receipts from customers	\$ 2,052,248	\$ 454,931	\$ 2,507,179	\$ 358,107
Payments to suppliers	(1,411,344)	(397,255)	(1,808,599)	(122,818)
Payments to employees	(440,904)	(19,160)	(460,064)	(122,610)
Other receipts	135,739	-	135,739	13,037
Net cash provided by operating activities	335,739	38,516	374,255	125,716
<b>Cash Flows from Capital and Related Financing Activities</b>				
Purchase of capital assets	(35,732)	-	(35,732)	(71,526)
Principal and interest paid on capital debt	(105,656)	-	(105,656)	-
Net cash used in capital and related financing activities	(141,388)	-	(141,388)	(71,526)
<b>Cash Flows from Investing Activities</b> - Interest received on investments	75,562	11,110	86,672	30,376
<b>Net Increase in Cash and Cash Equivalents</b>	269,913	49,626	319,539	84,566
<b>Cash and Cash Equivalents</b> - Beginning of year	1,498,429	232,072	1,730,501	624,211
<b>Cash and Cash Equivalents</b> - End of year	<u>\$ 1,768,342</u>	<u>\$ 281,698</u>	<u>\$ 2,050,040</u>	<u>\$ 708,777</u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>				
Cash	\$ 1,762,832	\$ 281,698	\$ 2,044,530	\$ 708,777
Restricted cash	5,510	-	5,510	-
Total cash and cash equivalents	<u>\$ 1,768,342</u>	<u>\$ 281,698</u>	<u>\$ 2,050,040</u>	<u>\$ 708,777</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>				
Operating income (loss)	\$ 187,133	\$ 20,939	\$ 208,072	\$ (33,320)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	227,102	-	227,102	135,311
Changes in assets and liabilities:				
Receivables	(72,239)	(6,495)	(78,734)	8,466
Other assets	8,666	-	8,666	(931)
Accounts payable	(15,882)	23,983	8,101	15,007
Accrued and other liabilities	959	89	1,048	1,183
Net cash provided by operating activities	<u>\$ 335,739</u>	<u>\$ 38,516</u>	<u>\$ 374,255</u>	<u>\$ 125,716</u>

There were no noncash capital, financing, or investing activities during the year.

# City of Northville, Michigan

## Fiduciary Funds Statement of Net Assets June 30, 2007

	Private Purpose Trust - Allen Terrace Trust	
	Fund	Agency Funds
<b>Assets</b>		
Cash and investments	\$ 132,254	\$ 113,118
Accounts receivable	-	3,826
Other assets	-	153,424
Total assets	132,254	<u>\$ 270,368</u>
<b>Liabilities</b>		
Accounts payable	-	\$ 16,375
Accrued and other liabilities	-	221,725
Due to other governmental units	-	32,268
Total liabilities	-	<u>\$ 270,368</u>
<b>Net Assets - Held in trust</b>	<u>\$ 132,254</u>	



# City of Northville, Michigan

## **Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2007**

	Private Purpose Trust - Allen Terrace Trust Fund
<b>Revenue</b>	
Interest revenue	\$ 6,091
Contributions from local units	6,285
Donations	<u>1,285</u>
Total revenue	13,661
<b>Expenses - Rent subsidies</b>	<u>1,972</u>
<b>Change in Net Assets</b>	11,689
<b>Net Assets - July 1, 2006</b>	<u>120,565</u>
<b>Net Assets - June 30, 2007</b>	<u><u>\$ 132,254</u></u>

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of Northville (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Northville:

#### **Reporting Entity**

The City of Northville is governed by a City Council of five members consisting of the elected council members and the mayor, who is deemed a member of the council for all purposes. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

**Discretely Presented Component Unit** - The Downtown Development Authority (DDA) of the City is reported in a separate component unit column to emphasize that it is legally separate from the City. The DDA was created to assist the City in the development of the downtown area. The DDA's governing body, which consists of nine individuals, is approved by the City Council. In addition, the DDA's budget is subject to approval by the City Council. The financial information included in the separate column is condensed. The complete financial statements of the DDA can be obtained from the City Offices at 215 W. Main Street, Northville, Michigan 48167.

**Jointly Governed Organizations** - Jointly governed organizations are discussed in Note II.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. Governmental activities are reported separately from business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues. Business-type activities rely on user fees and charges.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include the property taxes, state-shared revenue, and racetrack breakage. All other revenue items are considered to be available only when cash is received by the City. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include property taxes, state-shared revenue, and racetrack breakage. All other revenue items are considered to be available when cash is received by the City.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Street, Drainage, and Sidewalk Improvement Fund** - The Street, Drainage, and Sidewalk Improvement Fund is a Special Revenue Fund that is used to account for proceeds from a dedicated millage for street, drainage, and sidewalk improvements throughout the City. The expenditures are based upon a rolling 20-year capital improvement program.

**Parking Fund** - The Parking Fund is a Special Revenue Fund that is used to account for parking credit special assessment revenue and to pay for related public parking expenditures.

**Public Improvement Fund** - The Public Improvement Fund is a Special Revenue Fund that accounts for breakage revenue to the extent that it exceeds the cost of providing police and fire service at the racetrack. The expenditures in this fund are primarily for public improvement projects and related debt expenditures. Most grant activity is also recorded in this fund.

**Water and Sewer Fund** - The Water and Sewer Fund is the City's only major proprietary fund. It accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund types:

**Internal Service Fund** - The Internal Service Fund accounts for shared machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis.

**Trust and Agency Funds** - Fiduciary funds account for the activities of the Allen Terrace Trust Fund, which provides rental subsidies for eligible Allen Terrace residents and funding for capital improvements for Allen Terrace. The Agency Fund accounts for assets held in an agent capacity for other entities.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for services. Operating expenses for proprietary funds include the cost of services, administrative expenses, and depreciation of capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is generally allocated to each fund using a weighted average of balance for the principal.

**Receivables and Payables** - Outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade receivables are shown net of allowance for uncollectible amounts.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Property Taxes** - Property tax receivables are shown as net of allowance for uncollectible amounts. Properties are assessed as of December 31. The related property taxes are billed and become a lien on July 1 of the following year. These taxes are due without penalty during the period from July 1 through August 31 with the final collection date of February 28 before they are added to the county tax rolls.

The 2006 taxable valuation of the City totaled \$338 million (net of captured taxable value of \$24 million), on which ad valorem taxes levied consisted of 13.3 mills for the City's operating purposes, 1.7609 mills for street improvements, and 0.1279 mill for public safety debt service. The ad valorem taxes levied raised \$4.5 million for operations, \$595,000 for street, drainage, and sidewalk improvements, and \$43,000 for public safety debt service. These amounts are recognized in the respective General, Special Revenue, and Debt Service Funds financial statements as taxes receivable - current or as tax revenue.

The delinquent real property taxes of the City are purchased by Wayne and Oakland counties. The counties sell tax notes, the proceeds of which are used to pay the City for these property taxes. Both the Wayne County and Oakland County shares of delinquent real property taxes have been recorded as revenue in the current year.

**Inventories and Prepaid Items** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Cash** - Restricted cash represents both funds held with the Michigan Municipal Risk Management Authority for insurance claims and with Wayne County for the North Huron Valley/Rouge Valley sewer system grant program. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

### Note 1 - Summary of Significant Accounting Policies (Continued)

Capital assets are depreciated using the straight-line method over the following useful lives:

Roads, sidewalks, and bridges	20-50 years
Wells, water, and sewer distribution systems	30-90 years
Buildings and building improvements	5-50 years
Equipment	3-15 years
Vehicles	2-20 years
Streetscape	3-20 years
Parking system	5-10 years

**Compensated Absences (Vacation, Compensatory, and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits and accumulate compensatory leave time. After 10 years of service, employees may receive payment of the accumulated sick leave balance at the rate of 50 percent for retirement or 25 percent for other types of termination. A liability is accrued when incurred in the government-wide and proprietary fund financial statements.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. If applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### **Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end. The legal level of budgetary control adopted by the City is the activity level.

The budget represents a complete financial plan for all activities of the City for the ensuing fiscal year. All estimated income and proposed expenditures are detailed and presented in a form prescribed by law. In addition, this budget presents the proposed budget as part of a five-year plan to improve the decision-making process.

The budget process begins with goals and objectives meetings in January with the City Council, City manager, and administrative staff. These are public meetings. Based upon presentations by the City staff and discussion between the mayor and City Council, goals and objectives are prioritized by the City Council for the next fiscal year.

Each February, department heads receive workpapers to prepare their individual line item budgets. Upon completion, the departmental budgets are returned to the finance director in March. The City manager and the finance director then analyze these amounts. Further discussions occur with department heads and the budget is adjusted accordingly.

A proposed balanced budget is then developed to support the direction and focus established for the community by the City Council. Specific issues are identified which are vital to continued quality services within the means available. This method of budgeting serves to improve the level of organizational accountability. City Council meetings, held in April and May, provide all interested citizens an open forum where they can be heard. Upon review, and a subsequent public hearing, the City Council adopts the budget by resolution.



### **Note 2 - Stewardship, Compliance, and Accountability (Continued)**

The budget is scheduled for adoption at the second regular City Council meeting in May. The operating millage rate is established as part of the budget adoption resolution at that meeting.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The City did not have significant expenditure budget variances.

### **Note 3 - Deposits and Investments**

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States, repurchase agreements, bankers' acceptances of United States banks, commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions, which are rated as investment grade, mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan, and investment pools organized under the surplus funds investment pool acts of the State of Michigan. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized the City to invest in all vehicles covered by the state statute listed above.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

#### **Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's policy for custodial credit risk limits bank options to those approved by Council. All banks must supply audited financial statements, proof of state registration, and certification of compliance with the City's investment policy. At year end, the City had \$1,041,460 of bank deposits (checking and savings accounts in addition to certificates of deposits) that were uninsured and uncollateralized. The City believes that due to the dollar amount of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. As of June 30, 2007, the City utilized two banks for the deposit of City funds.

# City of Northville, Michigan

## Notes to Financial Statements June 30, 2007

### Note 3 - Deposits and Investments (Continued)

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City's policy is consistent with state law. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investment pools	\$ 1,403,644	A+	S&P
Federal Home Loan Mortgage Corporation	595,741	AAA	S&P/Moody's
Federal National Mortgage Association	1,384,295	AAA	S&P/Moody's
Federal Home Loan Bank	3,532,953	AAA	S&P/Moody's
Commercial paper	2,362,760	AI +, PI and PI +	S&P/Moody's

#### Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Federal Home Loan Mortgage Corporation	\$ 595,741	37 days
Federal National Mortgage Association	1,384,295	86 days
Federal Home Loan Bank	3,532,953	283 days
Commercial paper	2,362,760	32 days

# City of Northville, Michigan

## Notes to Financial Statements June 30, 2007

### Note 3 - Deposits and Investments (Continued)

#### Concentration of Credit Risk

It is the City's policy to diversify its investment portfolio with a goal of 5 percent maximum exposure to any one credit risk at time of purchase. This requirement does not apply to investments issued by the U.S. government or its agencies, investments in mutual funds, and external investment pools and other pooled investments. The City's concentration of credit risk is shown below:

Investment	Category	Percent
Federal Home Loan Bank Federal National Mortgage Association	U.S. government agencies	27%
	U.S. government agencies	11%

#### Component Unit

The component unit's investments are subject to several types of risk. At year end, the carrying amount of the component unit's cash and investments was pooled with City cash and investments. At June 30, 2007, the carrying amount of cash and investments for the component unit was \$2,002,235. For purposes of risk disclosure, it is not practical to allocate risk to individual component units. Disclosures related to the overall risk for the City's investments are presented above.

### Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessments	\$ 690,448	\$ -
Other miscellaneous deferred revenue	-	17,263
Total	<u>\$ 690,448</u>	<u>\$ 17,263</u>

# City of Northville, Michigan

## Notes to Financial Statements June 30, 2007

### Note 5 - Capital Assets

Capital asset activity of the primary government was as follows:

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 3,051,946	\$ -	\$ -	\$ 3,051,946
Works of art	-	74,785	-	74,785
Construction in progress	143,077	394,799	68,015	469,861
Subtotal	3,195,023	469,584	68,015	3,596,592
Capital assets being depreciated:				
Roads, sidewalks, and bridges	22,936,691	43,395	-	22,980,086
Buildings and improvements	10,122,574	147,774	-	10,270,348
Parking system	4,815,227	34,066	-	4,849,293
Streetscape	352,737	-	20,492	332,245
Vehicles	2,100,374	141,949	18,223	2,224,100
Equipment	1,517,545	116,217	26,239	1,607,523
Subtotal	41,845,148	483,401	64,954	42,263,595
Accumulated depreciation:				
Roads, sidewalks, and bridges	13,731,610	392,324	-	14,123,934
Buildings and improvements	3,428,570	409,584	-	3,838,154
Parking system	1,192,585	103,089	-	1,295,674
Streetscape	117,278	11,701	-	128,979
Vehicles	1,449,400	148,154	8,565	1,588,989
Equipment	1,006,838	141,067	26,239	1,121,666
Subtotal	20,926,281	1,205,919	34,804	22,097,396
Net capital assets being depreciated	20,918,867	(722,518)	30,150	20,166,199
Net capital assets	<u>\$ 24,113,890</u>	<u>\$ (252,934)</u>	<u>\$ 98,165</u>	<u>\$ 23,762,791</u>

# City of Northville, Michigan

## Notes to Financial Statements June 30, 2007

### Note 5 - Capital Assets (Continued)

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
<b>Business-type Activities</b>				
Capital assets not being depreciated - Construction in progress	\$ -	\$ 11,231	\$ -	\$ 11,231
Capital assets being depreciated:				
Buildings	21,535	-	-	21,535
Water and sewer distribution system	<u>10,362,263</u>	<u>24,500</u>	<u>-</u>	<u>10,386,763</u>
Subtotal	10,383,798	24,500	-	10,408,298
Accumulated depreciation:				
Buildings	23,135	-	1,600	21,535
Water and sewer distribution system	<u>3,948,459</u>	<u>227,102</u>	<u>(1,600)</u>	<u>4,177,161</u>
Subtotal	<u>3,971,594</u>	<u>227,102</u>	<u>-</u>	<u>4,198,696</u>
Net capital assets being depreciated	<u>\$ 6,412,204</u>	<u>\$ (202,602)</u>	<u>\$ -</u>	<u>\$ 6,209,602</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 238,220
Public safety	122,034
Public works	508,321
Recreation and culture	23,533
Senior housing	178,500
Internal Service Fund depreciation is charged to the various functions based on their usage of the asset	<u>135,311</u>
Total governmental activities	<u>\$ 1,205,919</u>
Business-type activities - Water and sewer	<u>\$ 227,102</u>

# City of Northville, Michigan

## Notes to Financial Statements June 30, 2007

### Note 5 - Capital Assets (Continued)

**Construction Commitments** - The City has active construction projects at year end. The City's commitments with contractors at June 30, 2007 are as follows:

	Spent to Date	Remaining Commitment
Beal Street Bridge reconstruction	\$ 57,985	\$ 85,951
Taft Road reconstruction	86,340	108,078
E. Main Sewer relocation	11,231	20,869
Police Department carport	32,507	3,600
Cady and Griswold parking lot	-	75,000
Total	<u>\$ 188,063</u>	<u>\$ 293,498</u>

### Note 6 - Interfund Transfers

Interfund operating transfers for the current year are as follows:

Transfers From (Out)	Transfers To (In)	Amount
General Fund	Public Improvement Fund	(1) \$ 239,017
General Fund	Other nonmajor governmental funds	(1) <u>169,811</u>
	Total	408,828
Street, Drainage, and Sidewalk Improvement Fund	Other nonmajor governmental funds	(2) 164,909
Public Improvement Fund	General Fund	(2) 150,826
Public Improvement Fund	Other nonmajor governmental funds	(2) <u>6,388</u>
	Total	157,214
Other nonmajor governmental funds	Other nonmajor governmental funds	(2) <u>154,585</u>
	Total transfers	<u>\$ 885,536</u>

- (1) The transfers from the General Fund to the nonmajor funds and the Public Improvement Fund are to support the operations of those funds.
- (2) Transfers between the various funds represent payment from one fund to another without an equivalent return of goods or services to fund operations and projects accounted for in the respective funds.

# City of Northville, Michigan

## Notes to Financial Statements June 30, 2007

### Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government.

Long-term obligation activity is summarized as follows:

	Interest Rate	Principal Matures	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:							
General obligation bonds:							
Parking deck bonds	5.25%-5.60%	2008	\$ 1,100,000	\$ -	\$ 345,000	\$ 755,000	\$ 365,000
Allen Terrace renovation bonds	2.50%-4.88%	2023	1,225,000	-	50,000	1,175,000	55,000
Public safety bonds	4.40%-5.00%	2011	245,000	-	35,000	210,000	40,000
Installment purchase agreements	3.45%-6.50%	2008	269,019	-	200,831	68,188	63,420
Total governmental activities			<u>\$ 2,839,019</u>	<u>\$ -</u>	<u>\$ 630,831</u>	<u>\$ 2,208,188</u>	<u>\$ 523,420</u>
Business-type activities - General							
obligation bonds - County contracts	5.50%-6.00%	2009	<u>\$ 280,014</u>	<u>\$ -</u>	<u>\$ 90,174</u>	<u>\$ 189,840</u>	<u>\$ 92,208</u>

Annual debt service requirements to maturity for the above obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 523,420	\$ 90,874	\$ 614,294	\$ 92,208	\$ 11,391	\$ 103,599
2009	489,768	64,663	554,431	97,632	5,858	103,490
2010	95,000	50,000	145,000	-	-	-
2011	105,000	45,980	150,980	-	-	-
2012	105,000	41,577	146,577	-	-	-
2013-2017	350,000	162,488	512,488	-	-	-
2018-2022	440,000	77,054	517,054	-	-	-
2023	100,000	2,438	102,438	-	-	-
Total	<u>\$ 2,208,188</u>	<u>\$ 535,074</u>	<u>\$ 2,743,262</u>	<u>\$ 189,840</u>	<u>\$ 17,249</u>	<u>\$ 207,089</u>

# City of Northville, Michigan

## Notes to Financial Statements June 30, 2007

### Note 8 - Restricted Cash

The balances of the restricted cash accounts are as follows:

	Governmental Activities	Business-type Activities
Funds held for insurance claims	\$ 122,708	\$ -
Debt service	1,483	-
Sewer system grant program	-	5,510
Total restricted assets	<u>\$ 124,191</u>	<u>\$ 5,510</u>

### Note 9 - Defined Benefit Pension Plan and Postretirement Benefits

**Plan Description** - The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers regular employees of the City hired prior to certain dates. As of June 30, 2007, all divisions are closed. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

**Funding Policy** - The obligation to contribute to and maintain the MERS for these employees was established by negotiation with the City's competitive bargaining units. The labor agreement with the City's two police unions requires an employee contribution of 2.65 percent for plan-eligible employees.

**Annual Pension Costs** - For the year ended June 30, 2007, the City's annual pension cost of \$586,128 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry actual age method. Significant actuarial assumptions used include: (a) an 8 percent investment rate of return; (b) projected salary increases of 4.5 percent to 12.9 percent per year including step increases; and (c) no postretirement benefit increases. The actuarial value of assets is determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized over 20 to 29 years, depending on the length of time that the employee division has been closed. The amortization will continue to decrease by two years per year until a minimum of five-year amortization is attained.



# City of Northville, Michigan

## Notes to Financial Statements June 30, 2007

### Note 9 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Three-year trend information is as follows:

	Fiscal Year Ended June 30		
	2005	2006	2007
Annual pension costs (APC)	\$ 435,111	\$ 524,726	\$ 586,128
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
	Actuarial Valuation as of December 31		
	2004	2005	2006
Actuarial value of assets	\$ 9,938,261	\$ 10,287,251	\$ 10,914,256
Actuarial Accrued Liability (AAL)			
(entry age)	\$ 14,536,463	\$ 15,561,301	\$ 16,511,320
Unfunded AAL (UAAL)	\$ 4,598,202	\$ 5,274,050	\$ 5,597,064
Funded ratio	68%	66%	66%
Covered payroll	\$ 2,155,048	\$ 2,149,100	\$ 1,982,054
UAAL as a percentage of covered payroll	213%	245%	282%

#### Defined Contribution Pension Plan

The City provides pension benefits through a defined contribution plan to its regular employees hired after certain dates beginning in 1997. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by City Council action, the City contributes 10 percent of employees' gross earnings for regular nonunion, clerical, and public works employees, 11 percent for each eligible police patrol and command employee, and 5 percent for each eligible part-time employee. There is a 3 percent employee contribution for patrol and command employees. The City's contribution plus investment earnings is fully vested by the employee after seven years of service.

The City's total payroll during the current year was \$4,425,687. The current year contribution was calculated based on covered payroll of \$1,306,881, resulting in an employer contribution of \$124,098.

### **Note 10 - Other Postemployment Benefits and Employee Benefits**

The City provides postemployment health benefits to certain retirees and their beneficiaries. The government pays the full cost of insurance premiums for those retired prior to April 1, 1997. Since then, a graduated postemployment healthcare vesting schedule applies for eligible employees with a minimum of 10 years of service. Currently, 35 retirees are eligible for postemployment health benefits. For the fiscal year ended June 30, 2007, the City made payments for postemployment health benefit premiums and related plan costs of \$635,994. The government obtains healthcare coverage through private insurers.

The City of Northville is the employer of record for the Northville Parks and Recreation Commission (the "Commission") and the DDA. Accordingly, the employees of those entities participate in the City's employee benefit programs and policies and are pooled with all other City employees for benefits administration. The City charges the Commission and DDA for its pro rata share of employee fringe benefit costs in the same manner as City departments are charged for fringe benefits. The Commission and DDA contribute a pro rata share of the amortization of unfunded actuarial liability for the defined benefit pension plan and postretirement benefit plan.

The Commission and DDA reimbursed the City \$443,373 and \$37,711, respectively, for all fringe benefit expenditures during the year ended June 30, 2007.

The City utilizes the MERS Health Care Savings Plan Trust Fund, established under Section 115 of the Internal Revenue Code, to pre-fund future retiree health care benefits. Given that the Trust Fund holds the assets of the plan, those assets are not reported in the City's basic financial statements. The City made a contribution of \$260,406 to the fund in the current year.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

### **Note 11 - Jointly Governed Organizations**

The City participates in the Northville Parks and Recreation Commission (the "Recreation Commission") as a joint venture with the Charter Township of Northville. The City is represented by the mayor or mayor pro tem and one other member of the City Council. Approval of the annual budget is required by the City and the Charter Township of Northville. The Recreation Commission has been subsidized to the extent that expenditures exceed operating revenue. At June 30, 2007, the investment in the Recreation Commission was \$483,337. During the current year, the City contributed approximately \$218,000 for the operations of the Recreation Commission. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Recreation Commission can be obtained from the City offices at 215 W. Main Street, Northville, Michigan 48167.

The City participates in the Northville Youth Assistance Commission (the "Commission") as a joint venture with the Charter Township of Northville and Northville Public Schools. The City appoints three members to the governing board of the Commission. Approval of the annual budget is required by the City and the Charter Township of Northville. At June 30, 2007, the investment in the Commission was \$42,867. During the current year, the City contributed approximately \$20,000 for the operations of the Commission. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Commission can be obtained from the Charter Township of Northville at 44405 Six Mile Road, Northville, Michigan 48167.

The City is a member of the 35th District Court System, which provides judicial services to the City and various other surrounding communities. The City appoints one member to the joint venture's board, which then approves the annual budget, and one member to the related Building Authority board. At June 30, 2007, the investment in the Court System was \$142,864.

# City of Northville, Michigan

## Notes to Financial Statements June 30, 2007

### Note 12 - Fund Balance Designations

The City has designated fund balance in the General Fund as follows:

Designated fund balance - Designated for:

Drug Awareness Resistance Education (DARE) donations	\$ 742
Criminal forfeitures	6,789
State and DARE drug forfeitures	<u>762</u>
Total designated fund balance - General Fund	<u>\$ 8,293</u>

The City has designated fund balance in the Special Revenue Funds as follows:

Designated fund balance - Designated for:

Beal Street Bridge	\$ 26,000
Cemetery expansion	24,797
Cemetery road paving	13,738
Certified local government project	1,167
City Hall capital maintenance plan	46,166
Contingency/Grant match	166,506
Emergency warning signs	32,430
Install new sidewalks	31,841
Internal loan program	130,000
Mill Pond restoration	80,000
Mill Race Village General Store	917
Municipal building humidifier	7,150
Park trees	3,000
Pedestrian walkway	39,200
Police department carport	22,493
Police training facility	7,500
Post Office expansion	5,000
Projects under consideration (fiscal year 2007 breakage to be designated)	143,521
Reverse 911 system reserve	30,000
Sewer improvements	50,000
Special projects	173,013
Town Square	263,100
Tree removals	9,693
Street Fund projects	<u>400,000</u>

Total designated fund balance - Special Revenue Funds	<u>\$ 1,707,232</u>
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# City of Northville, Michigan

## Notes to Financial Statements June 30, 2007

### Note 13 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity is as follows:

Cumulative shortfall - July 1, 2006	\$ (227,041)
Building permit revenue	\$ 160,877
Related expenditures:	
Direct costs	140,581
Estimated indirect costs	<u>78,361</u>
Total construction code expenditures	218,942
Shortfall - Current year	<u>(58,065)</u>
Cumulative shortfall - June 30, 2007	<u><u>\$ (285,106)</u></u>

### Note 14 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City participates in the Michigan Municipal Risk Management Authority (the "Authority") for claims relating to property loss, torts, and errors and omissions. The City also participates in the Michigan Municipal League (MML) risk pool for employee injuries. The City purchases commercial insurance for all medical benefits and for firefighter death and disability coverage. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority's risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although annual premiums are paid to the Authority, these amounts are used to pay claims up to the retention limits. The ultimate liability for claims remains with the City. A portion of the excess insurance coverage is underwritten by the Michigan Municipal Risk Management Authority itself.

### **Note 14 - Risk Management (Continued)**

The City estimates the liability for general liability claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as claims that may have been incurred but not reported. During the year ended June 30, 2007, there were no uninsured claims paid by the City and no significant outstanding balances at year end.

The Michigan Municipal League workers' compensation risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

## **Required Supplemental Information**

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# City of Northville, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance from Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 2,069,080	\$ 2,069,080	\$ 2,069,080	\$ -
<b>Resources (Inflows)</b>				
Property taxes	4,593,266	4,636,533	4,590,908	(45,625)
Licenses and permits	281,171	280,183	322,969	42,786
Federal sources	600	387	994	607
State-shared and grant revenue	579,605	584,002	595,230	11,228
Sales and services	120,850	127,910	118,706	(9,204)
Charges for services	203,680	189,230	187,846	(1,384)
Fines and forfeitures	77,300	83,900	84,867	967
Racetrack breakage	204,534	178,217	152,451	(25,766)
Other	248,602	254,726	269,857	15,131
Transfer from other funds and component units	146,983	233,809	232,437	(1,372)
Total resources (inflows)	6,456,591	6,568,897	6,556,265	(12,632)
<b>Charges to Appropriations (Outflows)</b>				
General government:				
City Council	21,295	18,295	15,591	2,704
City manager	230,390	248,535	241,673	6,862
Clerk - Elections	47,956	45,119	35,363	9,756
City clerk	198,010	201,690	193,402	8,288
Finance and administrative services	286,140	310,270	310,515	(245)
Taxation	193,192	236,630	242,131	(5,501)
City attorney	119,000	119,000	92,537	26,463
Planning, zoning, and inspection	223,950	259,510	262,748	(3,238)
Public safety:				
Police track services	171,940	149,040	126,191	22,849
Police department	2,407,105	2,371,575	2,233,079	138,496
Fire department	328,200	373,382	380,702	(7,320)
Fire track services	14,000	12,975	12,403	572



# City of Northville, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance from Amended Budget
<b>Charges to Appropriations (Outflows)</b> (Continued)				
Public works:				
Civic decorations	\$ 33,675	\$ 37,180	\$ 38,952	\$ (1,772)
Fall leaf pickup	56,610	44,354	44,422	(68)
Street lighting and miscellaneous public works	194,140	181,950	178,797	3,153
Parking system	165,575	129,975	126,953	3,022
Public works administration	209,433	214,470	212,537	1,933
Buildings and grounds:				
Cemetery maintenance	145,220	158,135	152,180	5,955
City Hall buildings and grounds	155,665	195,805	184,552	11,253
Mill Race Village maintenance	24,645	24,221	19,848	4,373
City property - Other	44,105	62,645	74,800	(12,155)
Parks and playgrounds	11,640	9,885	4,481	5,404
Tree maintenance	19,000	15,550	13,458	2,092
Debt retirement	65,316	65,316	65,913	(597)
Shared services	224,441	238,803	238,803	-
Other expenditures:				
Technology costs	226,484	286,887	285,943	944
Insurance, bonds, and employee reserve	73,410	66,552	66,552	-
Central supply	37,700	30,200	25,303	4,897
Transfers to other funds	364,164	403,823	408,828	(5,005)
Unallocated reserve	133,533	26,468	-	26,468
 Total charges to appropriations (outflows)	 6,425,934	 6,538,240	 6,288,657	 249,583
 <b>Fund Balance - End of year</b>	 <b>\$ 2,099,737</b>	 <b>\$ 2,099,737</b>	 <b>\$ 2,336,688</b>	 <b>\$ 236,951</b>

# City of Northville, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance from Amended Budget
<b><u>Parking Fund</u></b>				
<b>Fund Balance</b> - Beginning of year	\$ 543,139	\$ 543,139	\$ 543,139	\$ -
<b>Resources (Inflows)</b> - Other revenue				
Special assessments	74,882	150,419	157,954	7,535
Other revenue	<u>21,160</u>	<u>25,400</u>	<u>25,920</u>	<u>520</u>
Total resources (inflows)	96,042	175,819	183,874	8,055
<b>Charges to Appropriations (Outflows)</b> -				
Other expenditures	<u>5,515</u>	<u>4,586</u>	<u>4,689</u>	<u>(103)</u>
<b>Fund Balance</b> - End of year	<u><b>\$ 633,666</b></u>	<u><b>\$ 714,372</b></u>	<u><b>\$ 722,324</b></u>	<u><b>\$ 7,952</b></u>
<b><u>Public Improvement Fund</u></b>				
<b>Fund Balance</b> - Beginning of year	\$ 1,707,534	\$ 1,707,534	\$ 1,707,534	\$ -
<b>Resources (Inflows)</b>				
Federal sources	-	8,112	9,441	1,329
Special assessment	8,606	8,502	9,726	1,224
Racetrack breakage	-	174,696	233,428	58,732
Other revenue	116,175	163,404	206,336	42,932
Transfers in from other funds and component unit	<u>197,312</u>	<u>243,132</u>	<u>243,137</u>	<u>5</u>
Total resources (inflows)	322,093	597,846	702,068	104,222
<b>Charges to Appropriations (Outflows)</b>				
Debt retirement	170,712	170,717	170,717	-
Other expenditures	371,201	275,051	299,835	(24,784)
Transfers to other funds	<u>90,000</u>	<u>157,214</u>	<u>157,214</u>	<u>-</u>
Total charges to appropriations (outflows)	<u>631,913</u>	<u>602,982</u>	<u>627,766</u>	<u>(24,784)</u>
<b>Fund Balance</b> - End of year	<u><b>\$ 1,397,714</b></u>	<u><b>\$ 1,702,398</b></u>	<u><b>\$ 1,781,836</b></u>	<u><b>\$ 79,438</b></u>

# City of Northville, Michigan

## Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance from Amended Budget
<b><u>Street, Drainage, and Sidewalk Improvement</u></b>				
<b>Fund Balance</b> - Beginning of year	\$ 550,774	\$ 550,774	\$ 550,774	\$ -
<b>Resources (Inflows)</b>				
Property taxes	596,937	593,245	593,244	(1)
Other	7,800	44,000	45,211	1,211
Total resources (inflows)	604,737	637,245	638,455	1,210
<b>Charges to Appropriations (Outflows) -</b>				
General government - Transfers to other funds	264,000	264,000	164,909	99,091
<b>Fund Balance</b> - End of year	<u>\$ 891,511</u>	<u>\$ 924,019</u>	<u>\$ 1,024,320</u>	<u>\$ 100,301</u>

## **Other Supplemental Information**

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# City of Northville, Michigan

Nonmajor Special Revenue					
	Major Streets	Local Streets	Housing Commission	Cemetery	Employees' Accumulated Compensation
<b>Assets</b>					
Cash and investments	\$ 311,722	\$ 108,683	\$ 268,446	\$ 661,195	\$ 423,781
Restricted cash	-	-	-	-	-
Receivables - Net:					
Other government units	113,499	17,571	44,220	-	-
Assessments	-	-	-	-	-
Other	324	442	-	-	-
Other assets	-	-	-	-	-
Total assets	<u>\$ 425,545</u>	<u>\$ 126,696</u>	<u>\$ 312,666</u>	<u>\$ 661,195</u>	<u>\$ 423,781</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 4,673	\$ 599	\$ 13,887	\$ 135	\$ 85
Accrued and other liabilities	626	1,840	3,719	-	-
Due to other governmental units	108,210	-	-	-	-
Deferred revenue	-	-	7,203	-	-
Total liabilities	113,509	2,439	24,809	135	85
<b>Fund Balances</b>					
Reserved for cemetery trust	-	-	-	661,060	-
Reserved for capital projects	-	-	54,000	-	-
Unreserved	312,036	124,257	233,857	-	423,696
Total fund balances	312,036	124,257	287,857	661,060	423,696
Total liabilities and fund balances	<u>\$ 425,545</u>	<u>\$ 126,696</u>	<u>\$ 312,666</u>	<u>\$ 661,195</u>	<u>\$ 423,781</u>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2007**

Funds		Nonmajor Debt Service Funds		Nonmajor Capital Projects Fund	
Postretirement Health Care	Insurance Retention Fund	Parking Deck	2002 Debt Retirement Fund	Fire Equipment and Replacement	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 318,594	\$ -	\$ 365,964	\$ 2,458,385
-	122,708	221	91	-	123,020
-	-	-	-	-	175,290
-	-	55,765	-	-	55,765
-	-	-	-	-	766
-	-	-	48,669	-	48,669
<u>\$ -</u>	<u>\$ 122,708</u>	<u>\$ 374,580</u>	<u>\$ 48,760</u>	<u>\$ 365,964</u>	<u>\$ 2,861,895</u>
\$ -	\$ -	\$ 65	\$ -	\$ 59	\$ 19,503
-	53,525	-	-	-	59,710
-	-	-	-	-	108,210
-	-	27,882	-	-	35,085
-	53,525	27,947	-	59	222,508
-	-	-	-	-	661,060
-	-	-	-	-	54,000
-	69,183	346,633	48,760	365,905	1,924,327
-	69,183	346,633	48,760	365,905	2,639,387
<u>\$ -</u>	<u>\$ 122,708</u>	<u>\$ 374,580</u>	<u>\$ 48,760</u>	<u>\$ 365,964</u>	<u>\$ 2,861,895</u>

# City of Northville, Michigan

	Nonmajor Special Revenue				
	Major Streets	Local Streets	Housing Commission	Cemetery	Employees' Accumulated Compensation
<b>Revenue</b>					
Special assessments	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	89,220	-	-
State-shared and grant revenue	255,769	119,358	-	-	-
Local contributions	7,900	-	3,500	-	-
Sales and services	-	-	4,239	40,650	-
Michigan Housing Authority subsidies	-	-	79,931	-	-
Rental income	-	-	642,644	-	-
Contributions from other funds	-	-	-	-	-
Other	12,184	2,801	15,734	29,137	18,661
Total revenue	275,853	122,159	835,268	69,787	18,661
<b>Expenditures</b>					
Administration	25,166	16,639	212,495	-	-
Current capital outlay	-	-	-	-	-
Street maintenance and repairs	272,782	223,107	-	-	-
Housing operations	-	-	339,499	-	-
Other expenditures	3,327	3,327	133,761	-	-
Debt service	-	-	19,377	-	-
Total expenditures	301,275	243,073	705,132	-	-
<b>Excess of Revenue Over (Under)</b>					
<b>Expenditures</b>	(25,422)	(120,914)	130,136	69,787	18,661
<b>Other Financing Sources (Uses)</b>					
Transfers in	136,600	142,694	26,364	-	10,000
Transfers out	(55,000)	-	(99,585)	-	-
Total other financing sources (uses)	81,600	142,694	(73,221)	-	10,000
<b>Net Change in Fund Balances</b>	56,178	21,780	56,915	69,787	28,661
<b>Fund Balances - Beginning of year</b>	255,858	102,477	230,942	591,273	395,035
<b>Fund Balances - End of year</b>	<b>\$ 312,036</b>	<b>\$ 124,257</b>	<b>\$ 287,857</b>	<b>\$ 661,060</b>	<b>\$ 423,696</b>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2007**

Funds		Nonmajor Debt Service Funds		Nonmajor Capital Projects Fund		Total Nonmajor Governmental Funds
Postretirement Health Care	Insurance Retention Fund	Parking Deck	2002 Debt Retirement Fund	Fire Equipment and Replacement		
\$ -	\$ -	\$ 32,566	\$ -	\$ -	\$	32,566
-	-	-	-	-		89,220
-	-	-	-	-		375,127
-	-	200,000	-	-		211,400
-	-	-	-	-		44,889
-	-	-	-	-		79,931
-	-	-	-	-		642,644
-	50,000	-	-	-		50,000
-	23,387	18,884	48	13,511		134,347
-	73,387	251,450	48	13,511		1,660,124
-	-	-	-	-		254,300
-	-	-	-	54,006		54,006
-	-	-	-	-		495,889
-	-	-	-	-		339,499
426,999	102,215	-	-	-		669,629
-	-	397,167	102,726	-		519,270
426,999	102,215	397,167	102,726	54,006		2,332,593
(426,999)	(28,828)	(145,717)	(102,678)	(40,495)		(672,469)
-	-	-	99,585	80,450		495,693
-	-	-	-	-		(154,585)
-	-	-	99,585	80,450		341,108
(426,999)	(28,828)	(145,717)	(3,093)	39,955		(331,361)
426,999	98,011	492,350	51,853	325,950		2,970,748
<u>\$ -</u>	<u>\$ 69,183</u>	<u>\$ 346,633</u>	<u>\$ 48,760</u>	<u>\$ 365,905</u>		<u>\$ 2,639,387</u>



# City of Northville, Michigan

## Other Supplemental Information Combining Statement of Assets and Liabilities - Agency Funds Fiduciary Funds June 30, 2007

	Agency Funds		
	Payroll	Agency	Totals
<b>Assets</b>			
Cash and investments	\$ 72,108	\$ 41,010	\$ 113,118
Accounts receivable	646	3,180	3,826
Other assets	<u>153,424</u>	<u>-</u>	<u>153,424</u>
Total assets	<u><b>\$ 226,178</b></u>	<u><b>\$ 44,190</b></u>	<u><b>\$ 270,368</b></u>
<b>Liabilities</b>			
Accounts payable	\$ 13,189	\$ 3,186	\$ 16,375
Accrued and other liabilities	206,286	14,839	221,125
Due to other governmental units	<u>6,703</u>	<u>26,165</u>	<u>32,868</u>
Total liabilities	<u><b>\$ 226,178</b></u>	<u><b>\$ 44,190</b></u>	<u><b>\$ 270,368</b></u>



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September 6, 2007

To the Honorable Mayor and  
Members of the City Council  
City of Northville  
215 West Main Street  
Northville, MI 48167

Dear Mayor and City Council Members:

We recently completed our audit of the basic financial statements of the City of Northville (the "City") for the year ended June 30, 2007. As a result of our audit, we have the following comments and recommendations for your review and consideration.

### **New Auditing Standards**

Major and comprehensive changes were made to auditing rules in 2006. These new auditing standards require significant changes in how audits are done and how the results of the auditor's work are communicated to clients, bringing auditing rules for governmental units into closer alignment with the standards imposed on audits of public companies under Sarbanes-Oxley.

Some of these new standards became effective for the audit of your financial statements dated June 30, 2007 and after. As a result, auditors are required to comply with very specific rules related to the form, content, and extent of audit documentation, including more thorough documentation of auditing procedures and results. Other new guidelines affect the audit evidence that must be obtained before an auditor can consider an audit complete.

Another new rule requires auditors to more formally communicate matters they observe about their clients' accounting procedures and internal controls. Auditors are now required to inform clients about any "significant deficiencies" in accounting procedures or internal controls that come to their attention. Significant deficiency is a defined term that includes any flaw creating more than a remote risk of errors in financial statements that could reasonably matter to a user of the statements. Auditors must now communicate these matters in writing to all individuals involved in overseeing strategic direction and accountability for operations, in addition to management.



September 6, 2007

The remainder of the new rules will become effective for audits of financial statements dated June 30, 2008 and later. These new rules, which are known collectively as the new Risk Assessment Standards, significantly change the procedures auditors must perform in all financial statement audits. Under these new rules, auditors will be required to:

- More thoroughly examine and evaluate clients' accounting processes and controls, including the overall control environment, key controls over significant transactions, and the quality of internal oversight of the financial reporting process
- More thoroughly assess and document conditions in clients' systems and processes that create risks of material misstatement in their financial statements, and perform additional testing in response to these risks
- Design and perform more analytical tests of accounting and financial data
- Apply more stringent standards in identifying, assessing, and communicating internal control deficiencies
- Communicate more information about the results of the auditor's work to individuals involved in overseeing strategic direction and accountability for operations

As a practical effect of these new rules, auditors will need to make more detailed and specific requests for information from clients, particularly about processes and controls, and clients will need to do more work to be well prepared for their audits. The new rules also will require increased audit testing and more thorough auditing procedures, and will increase the amount of related documentation that auditors must prepare and maintain.

Plante & Moran, PLLC began analyzing these new standards and incorporating the necessary changes into our audit process and tools more than a year ago. It is clear that the new rules will require us to perform more audit procedures than we have in the past. Over the next several months, our firm will be investing heavily to implement our new audit methodology and train our staff on these changes. Our goal is to have our staff trained and working with our clients to prepare for the transition to these new rules well in advance of the required implementation date.

As we move forward, we will be communicating with you regularly about matters that will affect your next financial statement audit. In addition, we plan to begin to work with you during the upcoming year in a number of areas, including review and documentation of your internal accounting procedures and controls, to ensure a smooth transition to these new standards. We will be in contact with you in the near future to discuss these matters in more detail.

The primary objective of these new rules is to strengthen and enhance the independent audit of financial statements, including more thorough evaluation and information about your internal accounting and financial reporting processes and controls. We believe that these new rules, and the additional communications you will receive from us about the results of our audit work, will enhance the value you receive from your financial statement audit.

## LEGISLATURE UPDATES

### Revenue Sharing

The future of the State's revenue sharing program continues to be directly tied to the condition of the State's budget. Reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget. The State's budget shortfalls continue to be significant. The magnitude of the State's deficit has become even more pronounced after the State's January and May 2007 revenue estimating conferences. According to economists, Michigan is still approximately \$1.8 billion short of the revenue needed to cover basic services for the State's upcoming fiscal year 2007/2008 budget. It is not completely clear whether the State's fiscal year 2006/2007 budget has been completely balanced as well. The outcome of other matters will also impact revenue sharing and those matters include:

- **Future of County Participation in Statutory Revenue Sharing** - In 2004, the State terminated payment of statutory revenue sharing to counties (which was approximately \$182 million) but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund" which is to be used by the counties to replace lost statutory revenue sharing in future years. The question that remains is when the reserve funds established by counties are depleted, will counties come back into the "revenue-sharing formula" and to what extent? Will the size of the statutory pot grow to accommodate counties or will there be a shift of the same monies from cities, villages, and townships to the counties?
- **Statutory Revenue-sharing Formula Expires in 2007** - Legislative action is required on this Act for appropriations to continue into 2008 and beyond.
- **Changes to Michigan's Tax Structure** - The Michigan single business tax has been eliminated effective December 31, 2007 which will result in the loss of \$1.9 billion from the State's budget in 2008. In June 2007, a replacement for the single business tax - called the new Michigan business tax - was approved by the Legislature. More details on this new tax structure are included below. In the overview, the plan creates a new tax structure for Michigan businesses, provides further personal property tax relief to business taxpayers, and is forecasted by the State to generate about the same revenue (\$1.9 billion) as the single business tax. Technical corrections on this recently passed law are still pending and the law is lengthy and complex. The true financial impact on the State's budget is hard to predict. Rumors on further changes to Michigan's tax structure continue to circulate around Lansing as the Legislature continues their work on the State's fiscal year 2007/2008 budget and solving the estimated \$1.8 billion deficit that exists.

As introduced, the governor's budget for fiscal year 2007/2008 includes a revenue-sharing increase of \$27 million to be distributed using the three-part formula currently contained in the revenue-sharing act (taxable value per capita, population/unit type, and yield equalization) with an additional \$14.5 million for public safety funding. While specific details have not been announced yet, communities would only be eligible for the increase if they can demonstrate service sharing with other local governments.

While the debate is in process and all indications point to a very busy September for the Legislature, there still remain considerably more questions than answers regarding long-term funding of statutory revenue sharing. Decisions still remain on the ultimate funding level for revenue sharing for the State's fiscal years 2006/2007 and 2007/2008. Local governments may need to react with budget amendments when these final decisions are made by the State. We continue to urge the City to be conservative in its estimation of state-shared revenues as this line item in the State's budget remains vulnerable. We will continue to update the City as developments occur.

### **Personal Property Tax**

Over the last seven years, the State's personal property tax laws and regulations have changed substantially. In 2000, the State Tax Commission updated the general business depreciation tables that are used to calculate personal property taxes, resulting in an approximate drop in property tax revenue of 10 percent. In addition, the State Tax Commission also approved new personal property tax tables for utilities which made drastic changes to transmission and distribution property of utilities (resulting in approximately 30 percent revenue loss to local units of government). Also, the Michigan Supreme Court in *WPW Acquisition Co. v. City of Troy* ruled that the Proposal A cap prevents assessors from increasing the taxable value of commercial rental property above the rate of inflation using the occupancy methodology even when reductions in taxable value were previously granted due to a decrease in occupancy.

The new Michigan business tax (MBT) also provides more personal property tax relief to business taxpayers (see details below). Even with this most recent relief provided in June 2007 through the MBT, further reductions to personal property tax remain part of the State's tax structure discussions. Personal property taxes are a significant revenue source to many local governments. For the City, personal property tax is 3.7 percent of its tax base. If the State's new business tax structure provides personal property tax relief, the question is will local governments be held harmless by the State and to what extent? The governor's tax plan as introduced proposes to change the property tax system to mitigate the impact of the *WPW* case. A similar attempt to make this correction occurred in 2005 and 2006 with no success.

### **Property Tax Legislation**

A series of House bills were introduced in 2007 dealing with the treatment of the uncapping of value on sale or transfer of property. With the passage of Proposal A in 1994, changes to the taxable value of an individual property are limited to the lesser of the rate of inflation or 5 percent - until the property is sold or transferred. The difference between the capped taxable value amount and state equalized value at the time of transfer is referred as the "uncapped" value or the "pop-up" value. As several published studies and reports have demonstrated, the treatment of "uncapped" values or the "pop up" amount when a property is transferred or sold as growth on existing property subject to the Headlee rollback calculation has resulted in continued downward pressure on millage rates. This treatment is due to definitional changes made to the General Property Tax Act in 1994.

The three bills in the package are House Bills 4440, 4441, and 4442 and would propose to do the following:

- **House Bill 4440** - This bill establishes an 18-month moratorium on the "pop-up" or "uncapping" of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the timeframe of the moratorium would continue to pay property taxes at the previous taxable value amount. The "pop-up" or "uncapping" of taxable value would be delayed until the property was sold or transferred in later years.
- **House Bill 4441** - This bill increases the real estate transfer tax by .10 percent and earmarks the money to be returned to local government for potential loss in revenue occurring from House Bill 4440.
- **House Bill 4442** - This bill would change the General Property Tax Act to exempt the "pop-up" or "uncapped" value from the Headlee rollback calculation. If this legislation were enacted, increases in taxable value resulting from property sales or transfers would be treated as "additions" to taxable value or new growth versus growth on existing property.

House Bills 4440 and 4441 passed the House on March 14 (HB 4440 has been assigned to the Senate Finance Committee). House Bill 4442 has not been voted on yet in the House. The bills are not tie barred.

To the Honorable Mayor and  
Members of the City Council  
City of Northville

6

September 6, 2007

### **New Michigan Business Tax**

As previously indicated, the new Michigan business tax (MBT) was approved by the Legislature in June 2007 and replaces the single business tax (SBT) which expires December 31, 2007. According to the State, the new MBT is intended to generate about the same \$1.9 billion generated by the expiring SBT.

While the MBT intended to simplify the old SBT, the MBT is a very lengthy and complicated new law. The new MBT imposes two taxes - a modified gross receipts tax and a business income tax. The modified gross receipts tax is imposed at .8 percent on a tax base composed of gross receipts less certain purchases. The business income tax will be imposed at a rate of less than 5 percent on business income. The MBT provides for new investment, compensation, and research and development credits to businesses. The MBT also allows certain qualified small businesses to opt out of the MBT and pay a straight 1.8 percent tax on adjusted business income.

More personal property tax relief is also part of the new MBT. Business personal property classified as "industrial" or "commercial" will be exempt from certain personal property taxes, specifically from the State Education Tax (SET) and local school operating mills. "Industrial" personal property will receive exemptions from the 6 SET mills and the 18 schools operating mills (for a total 24 mill exemption). "Commercial" personal property will be exempt from 12 of the 18 school operating mills.

These newly enacted personal property tax exemptions will mean that local governments will collect less school taxes on these properties. For local governments that have enacted an administrative fee on tax collections, they will likely see a decrease in the administration fees that have traditionally been collected. Also, for those local governments with tax increment financing authorities that continue to have existing eligible obligations outstanding and are therefore allowed to capture school taxes (to the extent of these eligible obligations), the personal property tax exemptions on school millages will likely decrease the amount of school taxes available to capture.

Given the favorable tax treatment of industrial versus commercial personal property, it is expected that businesses will be re-reviewing the classification of their personal property. Your assessor will likely receive more frequent inquiries and requests to change classification of personal property to take the most advantage of the tax break afforded to industrial property and commercial property and the additional relief available for industrial property.

As we understand it now, these are the areas at the local governmental level (i.e., impact on administrative fees; impact on school dollars available for capture for certain tax increment financing authorities; property classifications) that are the most directly impacted by the new MBT.

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We will keep you updated as we continue to explore these and other issues regarding the impact of the MBT on local units of government.

### **New Cable Franchise Legislation**

The governor signed cable franchise legislation (House Bill 6456) into law effective January 1, 2007. The new law (Public Act 480 of 2006) creates the "Uniform Video Services Local Franchise Act," which provides a statewide framework for franchising agreements instead of individual community agreements. This Act requires video service providers to obtain a local franchise, good for 10 years, from the franchising entity (the local unit of government). As part of the local franchise, the provider is required to pay an annual video service provider fee, not to exceed 5 percent of gross revenue, as well as an annual fee for the costs of the PEG access facilities, not to exceed 2 percent of gross revenue. The Act allows providers to terminate the current franchise contracts before their expiration date, in order to enter into this new local franchise agreement under the statewide framework.

Local units of government will be impacted in the following ways:

- Under the Act, no additional fees or charges other than those stipulated under the Act may be written into the local franchise agreements.
- To the extent existing cable franchise agreements provided more funding than provided for under the new Act, municipalities will see reduced fees from these new local franchise agreements.
- A credit, based on annual maintenance fees paid for use of public rights of way, to video service providers is allowed under the Act. This credit could eliminate or significantly reduce any revenue the local unit might receive under the bills' franchise fee.
- Audits of the video service providers' calculation of gross revenue are limited to once every two years.

It is expected that local governments will receive their first payment under the new Act beginning in May 2007 or shortly thereafter. We strongly encourage you to review this payment compared to payments previously received and follow up with your provider as required.

Subsequent to the passage of the Act, amendments have been proposed in both the House and the Senate (House Bill 5047 and Senate Bill 636) to clarify language about the ability of local governments to receive PEG fees.



### **Recent Revisions to State Transportation Funding Program**

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Street Fund to their Local Street Fund at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent including the adoption of an asset management process for the major and local street systems as well as a detailed resolution passed by the City. It is important to note that major street monies transferred for use on local streets cannot be used for construction but may be used for preservation. These provisions sunset on December 31, 2008. Without an extension of this provision, a transfer from the Major Street Fund to the Local Street Fund can only be done to the extent that local revenues exist in the Major Street Fund. Current legislation also includes a pilot program that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

### **Other Legislative Items**

In addition to the Legislature's main focus on the business tax structure and solving the budget deficit, the following are a summary of a few other matters impacting local government finance receiving attention in Lansing these days:

- **Act 312** - Several articles have been written about recent discussions on potential revisions to Act 312 which governs collective bargaining between local governments and their police and fire bargaining units.
- **Local Government Consolidation** - Two bills to eliminate potential barriers to consolidation efforts have received attention by the Legislature (House Bills 4266 and 4246).
- **Drain Code Revisions** - A series of bills dealing with revisions to the Drain Code were voted on by the House in August (House Bills 4641, 4642, 4643, 4644, and 4688).
- **Transportation Tax Increase** - There continues to be ongoing discussion about the need for additional monies to properly fund Michigan's transportation system. More information can be found at [http://www.drivemi.org/mtt\\_members.php](http://www.drivemi.org/mtt_members.php).

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**Bonding to Fund Liability for Other Postemployment Benefits**

The day quickly approaches for local governments to measure the liability for non-pension benefits granted to government employees at retirement (most notably retiree health care). For the City of Northville, the City must disclose the funded status of its healthcare plan as part of the 2009 financial statements. Once these benefits are measured, local governments will face the tough choice of advance funding these benefits (which some are doing now), remain on a pay-as-you-go plan (which is the path for most local governments), or a combination thereof. To provide local governments with additional funding options, legislation was introduced in 2006 which would allow for bonding as a funding tool. The legislation was passed by the Michigan Legislature and vetoed by the governor. It was expected that the legislation was going to be reconsidered in 2007.

We would like to thank Ms. Nickie Bateson, Ms. Sandi Wiktorowski, Ms. Cindy Kushner, and the entire City staff for their assistance during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

**Plante & Moran, PLLC**



Beth A. Bialy



Christopher S. Jones